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OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
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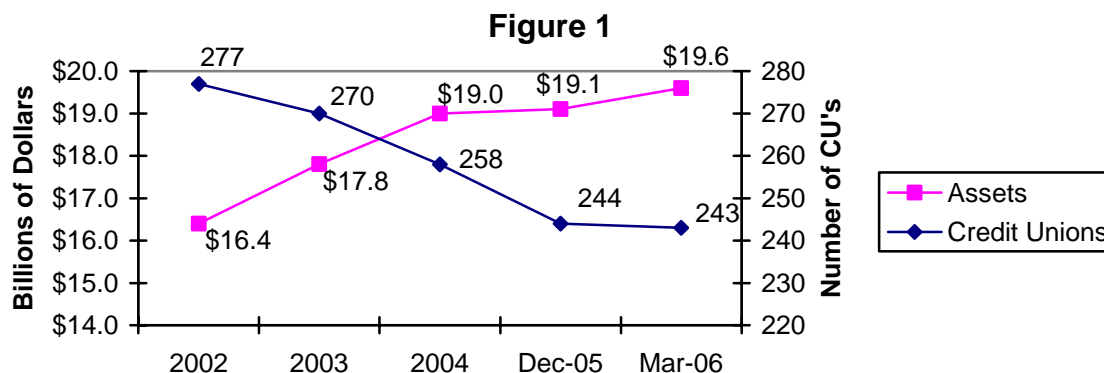
TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: 2006 First Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the March 31, 2006 call report filings. The following information and analysis does not include CenCorp Credit Union.

Consolidation Continues

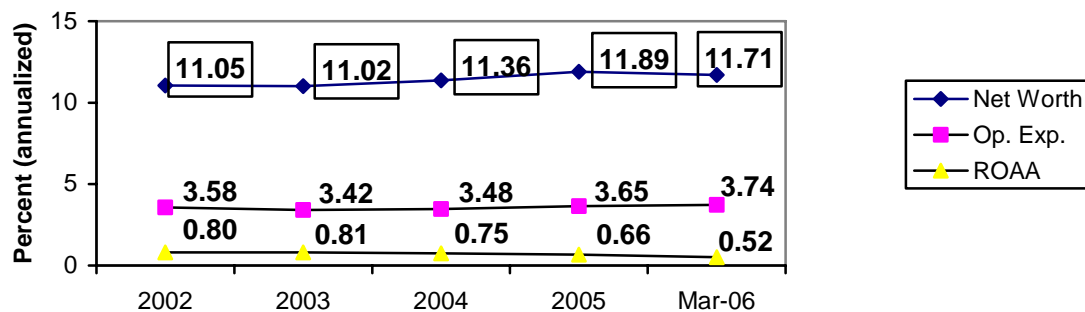
The number of Michigan state-chartered credit unions declined by one during the first quarter of 2006. Asset growth increased to 7.93% for the first quarter of 2006 (annualized), well above 0.81% during 2005 (Figure 1). Despite the aggregate asset growth, loans declined slightly by 1.49% during the first quarter and the number of credit unions reporting a decline in assets greater than 5% increased from 15 at year-end 2005 to 36 at March 31, 2006.



Net Worth (Including Unrealized G/L on AFS Inv)

Net worth declined from 11.89% at year-end 2005 to 11.71% at March 31, 2006. The decline in the net worth ratio can be attributed to significant asset growth and weakened earnings. Gross income increased 17 basis points during the first quarter of 2006 while cost of funds and operating expenses increased 27 and 9 basis points, respectively (Figure 2).

Figure 2

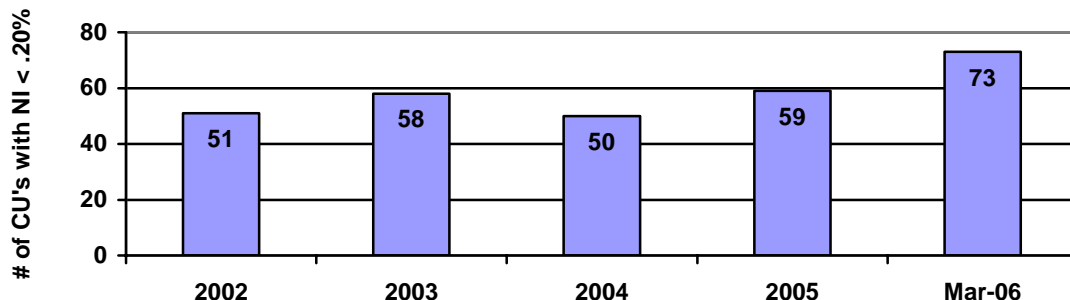


The decline in the spread between interest income and cost of funds can be attributed to the excess funds from shares being diverted to low yielding cash and cash equivalents rather than higher yielding investments and loans. For example, shares increased \$455 million during the first quarter. However, loans declined \$46 million and investments increased by only \$15 million. Cash on deposit and cash equivalents increased \$402 million.

As in any market, interest rate risk management is crucial. Interest rates continue to increase. Management should ensure a balanced loan and investment portfolio to ensure timely adjustments due to rising interest rates.

Return on average assets declined 14 basis points to 0.52% during the first quarter of 2006. The number of credit unions reporting an ROAA of less than .20% increased to 73 at March 31, 2006, an increase of 14 from year-end 2005 and 35 more than March 31, 2005 totals (Figure 3).

Figure 3



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Asset Quality Remains Sound

The aggregate delinquency and net charge-off ratios decreased from 1.17% and 0.61% (respectively) at year-end 2005 to 1.03% and 0.56% at March 31, 2006. The number of credit unions reporting an increase in net charge-offs greater than 100 basis points increased from 14 to 21 during the first quarter of 2006. However, credit unions reporting net charge-offs greater than 1.5% of average loans declined by one to 23 at March 31, 2006.

Conclusion

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division